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UNCLAS HARARE 002308

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SUBJECT: Zimbabwe's Elusive Inflation Rate

[1](#)1. Summary: Evidence suggests the GoZ understates the country's inflation, as the Central Statistical Office (CSO) relies on an outdated Consumer Price Index (CPI) and disregards product availability. However, data are unavailable to determine how far inflation runs beyond the official rate, currently 140 percent. End Summary.

[1](#)2. We recently hashed over inflation data with officials at CSO, the rough equivalent of the U.S. Bureau of Labor Statistics and sole GoZ organ that gathers monthly CPI data. We are not aware of an independent body, other than our USAID mission (more below), that tracks price changes.

Methodology Flaws

[1](#)3. CSO's indexing process has two glaring shortcomings. First, it has not adjusted CPI weights in the basket of goods and services since 1995, when Zimbabwe enjoyed a more robust economy. The present CPI assumes that food accounts for just 33.6 percent of household purchases, although Zimbabwean families now spend the bulk of their income on diet. Furthermore, at a time when half the country's population is threatened by famine, the CPI seems to overemphasize clothing and footwear (6.9 percent), furniture (7.5 percent) and entertainment (1.2 percent).

[1](#)4. Second, CSO data do not reflect black-market food cost. Surveyors visit shops that list only official prices. They do not check for product availability, a common problem in today's Zimbabwe, so there is no mechanism for determining repressed inflation or product substitution.

[1](#)5. Given that a) food should now dominate the CPI and b) its yearly increase is certainly higher than the reported 125.5 percent, we unscientifically conclude that overall inflation exceeds 140 percent. As peripheral evidence, we note that annual monetary expansion is running at 102 percent and the Zimdollar has lost 70 percent in parallel markets since October 2001.

So How High is Inflation?

[1](#)6. The USAID Mission economist has developed an intriguing "back of the envelope" model that elevates CPI weights for food, housing and transport/communications (though without a household survey). USAID staffers collect data, taking into account official as well as black-market prices for goods and services. Findings through September 2002 indicate an annual inflation rate of 316 percent using controlled prices and 422 percent using parallel market prices. We consider the USAID model a useful counterpoint to the official CPI, but feel the products and services included (e.g., "Ortho King" bed, lounge suite, international phone call, etc.) may be import-heavy and skewed toward middle-class buying patterns.

Comment

[1](#)7. When pressed, CSO statisticians acknowledged the shortcomings of their CPI process, but argued they may also be exaggerating inflation in some areas by overweighing CPI groups dominated by imports (such as electronics). This is no doubt true. However, if you elevate food's share of the CPI from 33.6 to, say, 60-80 percent and use international norms to determine price fluctuation, your net effect will still be far steeper than reported inflation. Thus while the oft-cited official inflation rate is conservative, we are unable to calculate how much higher it should be. Zimbabweans, of course, do not need an accurate CPI to tell them their standard of living is disintegrating. (Per capita GDP will have fallen from US\$ 736 in 1997 to US\$ 273 by the end of the year.)

Sullivan